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NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
d/b/a NATCHITOCHES PARISH HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2003, 2002 AND 2001

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Fiscal Management Office of the Legislative Auditor General, where appropriate, at the office of the parish clerk of court.

Release Date 11-12-03

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**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis

This section of the Hospital's annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by approximately \$1,667,685 or roughly 3.6% primarily due to the financial results for the year ended June 30, 2003.
- During the year, the Hospital's net patient service revenue increased approximately \$1,242,685 or 3.7% to \$34,816,626 from the prior year while expenses increased \$773,489 or 3.3%. The Hospital had income from operations of \$1,462,590, which is approximately 4.1% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$1,360,530 or 13.3% improvement.
- The Hospital received approximately \$159,957 in intergovernmental transfer funds during the year.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$5,246,858.

<u>Capital Investments</u>	<u>Vendor</u>	<u>Department</u>	<u>2003 Cost</u>
Ambulance – Type III	Whetzel Cash	Ambulance	\$ 73,880
Parking Lot Additions (50 Spaces)	McPines	Land	\$ 124,838
Pysia Medicine System	Pysia	Pharmacy	\$ 182,858
Ultrascound System	Toshiba	Ultrascound	\$ 237,500
Business Office Building	Amery East	Business Office	\$ 265,189
Nurse Call System	1-80 Home	Nursing	\$ 640,808
2 nd & 3 rd Floor Renovations	McPines	Med/Surg & OR	\$ 600,667
Purchasing Renovations	McPines	Materials Mgmt.	\$ 832,376
Surgical, Diagnostic, Expansion	S. Carver	Surgery, X-Ray, ICU	\$2,874,828

The source of the funding for these projects was derived from operations and prior year issued bond proceeds.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Required Financial Statements

The basic financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amount of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures improvements in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

Table 1
Condensed Balance Sheets

	June 30		Dollar Change	Percent Change
	2003	2002		
Total Current Assets	\$ 1,368,425	\$ 8,828,314	\$ (7,459,889)	-53.9%
Capital Assets – Net	10,298,476	10,738,760	3,660,715	33.6%
Other Assets, Including Board- Designated Investments	21,862,269	22,278,710	(416,441)	-1.9%
Total Assets	\$48,871,152	\$47,163,457	\$ 1,687,695	3.6%
Current Liabilities	\$ 3,492,148	\$ 3,815,291	\$ 478,855	15.8%
Long-term Debt/Liabilities	9,132,637	9,863,360	(730,690)	-7.3%
Total Liabilities	12,614,785	12,898,584	(283,847)	-2.2%
Net Assets	36,256,366	34,264,863	1,871,536	5.5%
Total Liabilities and Net Assets	\$48,871,152	\$47,163,457	\$ 1,687,695	3.6%

As can be seen in Table 1, total assets increased by \$1,687,695 to \$48,871,152 in fiscal year 2003, up from \$47,163,457 in fiscal year 2002. The change in total net assets results primarily from earnings and operating income in the current year.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2003 and 2002.

Table 3
Condensed Statements of Revenues, Expenses, and
Changes in Net Assets

	2003	2002	Dollar Change	% Change
Revenue:				
Net Patient Service Revenue	\$34,015,525	\$33,671,880	\$1,243,645	3.7%
Other Revenues	5,132,362	1,450,888	3,681,474	252.4%
Net Revenue	<u>\$39,147,887</u>	<u>\$35,122,768</u>	<u>\$4,025,119</u>	<u>11.5%</u>
Expenses:				
Salaries & Benefits	14,948,333	14,134,864	\$813,469	5.8%
Medical Supplies	2,878,232	2,342,881	\$535,351	23.2%
Purchased Services	4,391,302	4,376,425	\$14,877	0.3%
Other Operating Expenses	6,680,219	7,636,324	(\$956,105)	-12.5%
Prov. for Uncollected Accounts	3,603,373	3,649,558	(\$46,185)	-1.3%
Depreciation & Amortization	1,754,354	1,871,127	(\$116,773)	-6.2%
Interest	43,814	71,868	(\$28,054)	-39.0%
Total Operating Expenses	<u>\$34,699,617</u>	<u>\$34,683,057</u>	<u>\$16,560</u>	<u>0.0%</u>
Net Operating Income	1,448,270	1,290,550	\$157,720	12.2%
Investment Income	572,315	443,536	\$128,779	29.0%
Non-operating Income	27,264	3,479,676	(\$3,452,412)	-99.2%
IGT Transfers	<u>189,657</u>	<u>437,788</u>	<u>(\$248,131)</u>	<u>-56.7%</u>
Excess of Revenue over Expenses	2,137,511	8,681,800	(\$6,544,289)	-75.5%
Unrealized Holding Gains (Losses)	<u>(280,565)</u>	<u>199,791</u>	<u>(\$480,356)</u>	<u>-240.5%</u>
Comprehensive Income (Loss)	<u>\$ 1,856,946</u>	<u>\$ 8,881,591</u>	<u>(\$7,024,645)</u>	<u>-78.9%</u>
Restricted Net Assets	\$ 5,525,501	\$ 5,016,531	\$ 508,970	10.1%
Net Assets - Beginning of Year	\$34,584,853	\$35,475,235	\$ 8,910,382	25.1%
Net Assets - End of Year	<u>\$36,441,799</u>	<u>\$36,294,826</u>	<u>\$ 1,146,973</u>	<u>3.2%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Source of Revenue

Operating Revenue

During fiscal year 2003, the Hospital derived the majority, or approximately 97%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes cafeteria sales, contract meals, rental income, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30, 2003 and 2002.

Table 3
Payor Mix by Percentage

	Year Ended June 30	
	2002	2003
Medicare	45.57%	46.75%
Medicaid	20.89%	21.01%
Commercial Insurance	14.97%	14.38%
Blue Cross	2.59%	3.65%
Self-Pay and Other	<u>8.75%</u>	<u>9.34%</u>
Total Patient Revenues	<u>100.00%</u>	<u>100.00%</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Other Revenue

Other revenue includes cafeteria sales, rental income, and other miscellaneous services.

**Table 4
Other Revenue**

	Year Ended June 30	
	2003	2002
Other Revenue:		
Dietary Sales	\$ 328,468	\$ 343,380
Rental Income	\$75,300	\$88,091
Ambulance Tax	15,106	323,406
Link Trust	85,458	\$7,704
Vending	35,167	35,969
Medical Records	5,959	6,958
Other	123,381	35,072
	<u>\$1,173,821</u>	<u>\$1,443,179</u>

Investment Income

The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$673,370 during fiscal year 2003.

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2003 and 2002.

Overall, activity at the Hospital as measured by patient discharges, reduced by 5.2% to 4,023 discharges in 2003 from 4,243 discharges in 2002. Patient days decreased 5.4% from prior year of 17,880 in 2002 to 16,176 in 2003. As a result, the average length of stay for all patients (excluding newborns) increased to 4.2 days in 2003 from 3.9 days in 2002.

Our Long-Term Care Unit's activity decreased by 1.1% to 38,929 days in 2003 versus 39,287 days in 2002, which represents 95% occupancy on the unit.

The Hospital operates the community ambulance service, that traditionally has had operating losses. Effective July 2003, the residents of Natchitoches Parish passed a 6 mill property tax to subsidize operations.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Table 6
Patient and Hospital Statistical Data

	Year Ended June 30	
	2003	2002
Admissions:		
Adult and Pediatric	3,683	4,099
Newborn	624	597
Long-Term Care Unit	148	90
Geriatric Psych Unit	137	154
Patient Days:		
Adult and Pediatric	14,418	15,953
Medicare (Included in Adult & Pediatric)	7,345	7,627
Medicaid (Included in Adult & Pediatric)	4,254	3,772
Newborn	1,498	1,328
Long-Term Care Unit	38,929	39,267
Geriatric Psych Unit	1,730	1,327
Operating Room Patients	3,621	1,998
Outpatient Registrations	48,826	47,004
Emergency Room Visits	17,880	17,151
Ambulance Runs	3,324	3,248
Average Daily Census:		
Adult and Pediatric	39.5	43.7
Long-Term Care Unit	155.7	157.8
Geriatric Psych Unit	4.8	5.3
Average Length of Stay (Excluding Newborn):		
Adult and Pediatric Patients	3.71	3.68
Medicare Patients	5.48	5.08
Medicaid Patients	3.79	3.88
Long-Term Care Unit Patients	268.48	413.35
Geriatric Psych Unit Patients	12.74	12.78
Percentage of Adult and Pediatric Patient Days:		
Medicare	50.25%	47.81%
Medicaid	29.56%	23.64%
Full-Time Equivalents (FTE's)	443	440

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Total net patient service revenue increased by \$1,343,966 or 3.7% in 2003.

Increases in net patient service revenue are primarily due to an increase in surgical complex cases and general price increases as depicted on the preceding page, Table 5, patient and hospital statistical data. While gross patient revenue increased by \$5,932,232 from prior year due to increased outpatient volume and rate increases, net patient service revenue only increased by \$1,343,966 due to an increase in contractual allowances.

Allowances increased over prior year as described in the table below:

**Table 6
Allowance Summary**

	Year Ended June 30	
	2003	2002
Allowances:		
Medicare Contractual Allowances	\$ 19,066,512	\$17,076,380
Medicaid Contractual Allowances	\$ 5,372,471	\$ 5,667,354
Blue Cross, Louisiana State Employees Group Benefits, and other Contractual Allowances	\$ 5,823,431	\$ 4,990,663
Other Adjustments	\$ 217,648	\$ 174,226

As a result of an increase in management's expansion of collection efforts, days in accounts receivable decreased from 55.9 days to 53.3 days. Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of \$258,816 were forgone during 2003, compared to \$160,147 in 2002 or 30.3% increase from the prior fiscal year. During 2003, the Hospital assured compliance with our charity policy resulted in only patients meeting specific criteria will be classified as a charity care.

Total salary expenses increased to \$13,280,248 in 2003 from \$12,540,772 in 2002, a 5.7% variance. As a percentage of net patient service revenue, salary expense was approximately 38.0% and 37.2% for the fiscal years ended June 2003 and 2002, respectively. Unstable market for allied healthcare professionals along with variances in productivity goals, are primarily responsible for the increase.

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Employee benefit expense increased by \$173,898 or 12.2% from prior year. Employee benefit expenses represented 12.0% and 11.3% of salary expenses in the current and prior fiscal years, respectively. This increase is primarily due to increases in health insurance costs.

Supplies expense increased by \$822,661 or 22.2% from prior year. As a percentage of net patient service revenue, supplies expense increased to approximately 8.5% from 7.0% for the fiscal years ended June 2003 and 2002, respectively. Improvement was made in expense coding of medical supplies versus non-medical supplies. The change in coding is reflected in a lower non-medical supply cost of \$458,583.

Contract services, equipment and fees decreased by \$44,123 or 1.0% from prior year.

Other operating expenses decreased approximately \$338,188 from prior year due primarily to the reduction in our non-medical supplies of \$458,583 as previously mentioned.

Provision for bad debts increased by \$312,534 and represents 11.3% of net revenue versus prior year's 10.7%. The increase comes primarily due to the slow economy, reflected in our non-insured patient population increase to 9.34% from 8.79% of patients.

Depreciation and interest expense remained relatively flat from prior year.

Total operating expenses increased by \$773,487 for the year ended June 30, 2003 for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by several investments under bond resolution. The net unrealized gain (loss) on market adjustments is excluded from this amount. Non-operating income is down from the prior year due to the gift from CHRISTUS Health being completely recognized in the prior year. No future large gifts are expected.

Capital Assets

During fiscal year 2003, the Hospital invested \$5,248,889 in a broad range of capital assets included in Table 7 below.

**Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana**

Management's Discussion and Analysis (continued)

**Table 7
Capital Assets**

	Year Ended June 30		Dollar	Percent
	2003	2002	Change	Change
Land	\$ 1,071,507	\$ 998,124	\$ 113,813	11.0%
Building & Equipment	<u>38,240,341</u>	<u>39,961,879</u>	<u>4,729,437</u>	<u>18.8%</u>
Subtotal	39,312,318	40,960,803	4,843,493	18.4%
Less Accumulated Depn.	<u>20,788,398</u>	<u>19,800,273</u>	<u>888,124</u>	<u>5.0%</u>
Construction in Progress	<u>3,772,698</u>	<u>5,628,112</u>	<u>(287,526)</u>	<u>-7.3%</u>
Net Property, Plant & Equipment	<u>\$12,296,478</u>	<u>\$15,738,700</u>	<u>\$3,462,736</u>	<u>22.6%</u>

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities, equipment, and is in the process of building expansion to modernize surgery, emergency room, x-ray, ICU and admitting.

In Table 8, the Hospital's fiscal year 2004 capital budget projects spending up to \$11,623,474 for capital projects. These projects will be financed from operations and residual funds from 2001 bond proceeds. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

**Table 8
Fiscal Year 2004 Capital Budget**

Equipment Purchases	\$ 1,668,376
Construction/Renovations	250,000
Prior Year Approved Items	<u>9,705,098</u>
Total	<u>\$11,623,474</u>

Natchitoches Parish Hospital Service District
Natchitoches Parish, Natchitoches, Louisiana

Management's Discussion and Analysis (continued)

Long-Term Debt

At year end, the Hospital had \$6,625,000 in short-term and long-term debt. This decreased by \$870,761 in fiscal year 2009, which was the amount of principal payments on outstanding debt for the fiscal year. The Hospital has one \$450,000 payment left on the 1994 series debt that will be paid out on October 1, 2009, leaving only our June 14, 2009, revenue bonds outstanding. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 20.28% of the Hospital's total assets at June 30, 2009.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital Administration.

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Independent Auditors' Report

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the accompanying basic financial statements of the Natchitoches Parish Hospital Service District and its Affiliate (the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2003, 2002 and 2001, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2003, 2002 and 2001, and the results of its operations and cash flows of such funds for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2003, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the Hospital's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 1 to the financial statements, effective July 1, 2002, the Hospital changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board.

Management's discussion and analysis on pages "i" through "vi" is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Certified Public Accountants
September 10, 2003

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30, 2003, 2002 AND 2001

ASSETS	2003	2002	2001
Current:			
Cash and cash equivalents	\$ 1,358,143	\$ 1,905,589	\$ 1,892,930
Limited use assets (Note 5)	919,338	868,880	4,787,275
Prepaid accounts receivable, net (Note 3)	3,442,545	4,389,939	6,154,910
Other receivables	71,580	71,830	321,833
Inventory	1,129,824	1,062,792	1,037,850
Prepaid expenses	367,995	334,494	411,557
Notes receivable - current	303,812	283,198	312,188
Total current assets	<u>7,583,425</u>	<u>8,860,014</u>	<u>14,824,583</u>
Other:			
Limited use assets (Note 5)	29,891,204	21,639,218	16,864,481
Property, plant and equipment, net (Note 6)	19,299,478	15,738,703	12,758,480
Unamortized bond issue cost (Note 7)	46,253	54,560	68,833
Unamortized capitalized construction interest (Note 7)	748,631	948,843	275,345
Notes receivable (Note 16)	333,141	638,088	589,746
Total assets	<u>\$ 46,871,182</u>	<u>\$ 47,169,457</u>	<u>\$ 48,213,499</u>
LIABILITIES AND NET ASSETS			
Current:			
Accounts payable	\$ 1,648,190	\$ 679,169	\$ 691,660
Payroll withholdings and taxes	51,831	128,859	26,532
Accrued expenses (Note 8)	1,011,181	1,060,522	879,034
Unearned revenue (Note 14)	10,890	4,301	3,454,284
Current portion of long-term debt (Note 9)	779,890	819,791	794,878
Total current liabilities	<u>3,482,146</u>	<u>3,015,291</u>	<u>6,136,768</u>
Long-term liabilities:			
Long-term debt (Note 9)	8,125,000	8,895,000	10,724,583
Less: deferred loss on bonds	(2,893)	(17,892)	(21,081)
Total liabilities	<u>12,814,753</u>	<u>12,898,559</u>	<u>16,840,369</u>
Net assets:			
Invested in capital assets, net of related debt	9,404,478	5,821,623	1,238,649
Restricted net assets	5,525,581	6,516,531	15,371,843
Unrestricted net assets	23,225,349	20,748,415	11,852,337
Total net assets	<u>38,155,369</u>	<u>34,294,669</u>	<u>28,473,329</u>
Total liabilities and net assets	<u>\$ 46,871,182</u>	<u>\$ 47,169,457</u>	<u>\$ 48,213,499</u>

See accompanying notes to financial statements.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Revenue:			
Net patient service revenue	\$ 34,810,525	\$ 33,871,550	\$ 31,043,326
Gain (loss) on sale of assets	(10,458)	9,712	0
Other revenue	<u>1,171,821</u>	<u>1,441,178</u>	<u>1,150,901</u>
Total revenue	<u>36,969,887</u>	<u>35,322,440</u>	<u>32,194,227</u>
Expenses:			
Salaries and benefits	14,056,068	13,963,484	13,349,506
Medical supplies and drugs	2,675,232	2,352,581	3,491,731
Medical, professional and consulting	4,331,382	4,375,425	2,441,943
Other expenses	6,062,919	6,012,841	5,906,693
Retirement	91,675	171,480	34,648
Insurance	769,644	762,733	535,280
Laundry	18,399	20,790	4,038
Depreciation and amortization	1,704,384	1,671,127	1,634,689
Interest	43,854	71,868	98,622
Provision for bad debts	<u>3,582,573</u>	<u>3,589,539</u>	<u>4,758,572</u>
Total expenses	<u>34,935,327</u>	<u>33,831,918</u>	<u>32,179,599</u>
Operating income (loss)	<u>1,482,960</u>	<u>1,290,522</u>	<u>914,628</u>
Nonoperating income:			
Interest income	23,471	36,748	63,697
Interest income from limited use assets	549,958	437,168	687,745
Net contributions (Note 14)	27,204	3,479,679	636,503
IGT transfer - administrative fee (Note 15)	<u>709,957</u>	<u>431,758</u>	<u>789,422</u>
Total nonoperating income	<u>709,951</u>	<u>4,385,403</u>	<u>1,587,267</u>
Excess of revenue over expenses	<u>2,172,121</u>	<u>5,691,925</u>	<u>2,511,895</u>
Other comprehensive income			
Unrealized holding gains (losses)	<u>(200,355)</u>	<u>190,701</u>	<u>277,299</u>
Comprehensive income (loss)	<u>1,971,766</u>	<u>5,811,624</u>	<u>2,789,294</u>
Net assets at beginning of year	<u>34,394,683</u>	<u>28,473,229</u>	<u>25,683,974</u>
Net assets at end of year	<u>\$ 36,366,449</u>	<u>\$ 34,384,853</u>	<u>\$ 28,473,229</u>

See accompanying notes to financial statements.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 31,370,480	\$ 31,637,278	\$ 25,510,850
Other receipts from operations	1,088,682	1,523,575	342,152
Investment income received - nonrestricted	23,471	38,748	63,667
IGIT transfer fee received	108,657	437,788	289,423
Cash payments to employees and for employee-related cost	(14,282,312)	(13,626,190)	(13,157,024)
Cash payments for other operating expenses	(13,628,686)	(13,631,999)	(12,637,615)
Net cash provided (used) by operating activities	<u>4,601,643</u>	<u>5,083,238</u>	<u>1,651,458</u>
Cash flows from investing activities:			
Collections on physician loans	15,325	-0-	1,584
Cash invested in assets limited as to use - investment	(346,834)	(854,357)	(960,881)
Redemption of investments/principal return	1,162,038	71,581	3,033,586
Loans to physicians	(132,688)	(310,615)	(398,233)
Investment earnings	548,534	407,185	667,745
Net cash provided (used) by investing activities	<u>1,044,388</u>	<u>(486,271)</u>	<u>2,289,741</u>
Cash flows from capital and related financing activities:			
Interest expense	(43,614)	(71,858)	(89,623)
Bond issue costs	-0-	-0-	(8,174)
Capitalized construction interest	(238,588)	(374,215)	(79,753)
Principal payments on long-term debt	(618,781)	(664,897)	(510,868)
Acquisition of property, plant and equipment	(3,248,885)	(4,618,342)	(3,119,608)
Contributions	27,294	26,679	638,503
Net cash provided (used) by capital and related financing activities:	<u>\$ (8,213,477)</u>	<u>\$ (13,643,489)</u>	<u>\$ (3,180,328)</u>

See accompanying notes to financial statements.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Net increase (decrease) in cash and cash equivalents	\$ (297,446)	\$ (243,469)	\$ 129,709
Beginning cash and cash equivalents	<u>1,825,588</u>	<u>1,829,058</u>	<u>1,779,349</u>
Ending cash and cash equivalents	<u>\$ 1,528,142</u>	<u>\$ 1,585,589</u>	<u>\$ 1,899,058</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	<u>\$ 514,152</u>	<u>\$ 689,025</u>	<u>\$ 449,725</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 1,482,960	\$ 1,290,530	\$ 914,688
Interest expenses considered capital financing activity	43,614	71,958	58,622
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
(Gain) loss on disposal of assets	19,458	9,712	-3
Provision for bad debts	3,902,079	3,989,638	4,788,572
Depreciation and amortization	1,704,364	1,671,127	1,634,893
Amortization of loss on refinancing of 1978 Bonds	6,384	6,384	6,303
Amortization of bond issue cost	6,340	6,340	6,340
LHA trust allocation of income	(88,496)	(87,794)	(81,896)
Physician loan amortization	369,189	371,335	366,806
Interest income	23,471	38,749	63,597
IGT transfer - administrative fee	108,867	437,788	299,423
(Increase) decrease in:			
Patient accounts receivable, net	(2,945,065)	(1,834,382)	(6,432,475)
Other receivables	250	158,003	(149,833)
Inventory	(67,832)	(29,642)	(20,436)
Prepaid expenses	(43,131)	87,194	(291,036)
Increase (decrease) in:			
Accounts payable	637,847	(11,811)	272,077
Payroll withholdings and taxes	(168,907)	133,328	182,966)
Accrued expenses	(48,341)	181,489	320,062
Unearned revenue	<u>6,837</u>	<u>677</u>	<u>(297,468)</u>
Net cash provided by operating activities	<u>\$ 4,871,843</u>	<u>\$ 6,083,238</u>	<u>\$ 1,661,688</u>

See accompanying notes to financial statements.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 1 – THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legal Organizations

The Natchitoches Parish Hospital Service District (referred to as "the District" or "the Hospital") was created by an ordinance of the Natchitoches Parish Police Jury (the "Jury") on October 18, 1955. The governing board of the District consists of seven members appointed by the Jury. Because the Jury appoints all commissioners of the Natchitoches Parish Hospital Service District, the District is a component unit of the Natchitoches Parish Police Jury, which is the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Jury, or the other governmental units that comprise the financial reporting entity.

An affiliate, Natchitoches Hospital Foundation (referred to as "the Foundation"), was incorporated June 23, 1987, as a Louisiana nonprofit corporation. The Foundation has one class of members, consisting of one member, the District.

Nature of Business

The District provides outpatient, ambulance, emergency and acute services through its hospital unit. The District also provides inpatient intermediate and skilled nursing services through its long-term care unit and hospital "Swing-Beds". In June 1995, the District opened a unit to provide geriatric psychiatric services and was recognized as a "distinct part" unit effective July 1, 1995.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the District.

Method of Accounting

The combined financial statements of the District and Foundation are prepared using the accrual method of accounting. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and the HOPA Guide to Providers of Health Care Services, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

On July 1, 2002, the Hospital adopted the provisions of Statement No. 34 (Statement 34) of GASB, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted and unrestricted. These classifications are defined as follows:

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Method of Accounting (Continued)

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- **Restricted** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The adoption of Statement 34 resulted in the previously reported unrestricted fund balance amount being classified to conform to the above net asset classifications. Additionally, the Hospital restated the 2002 and 2001 statements of cash flows to conform to the direct method of reporting cash receipts and disbursements.

Combination Policy

The accompanying financial statements include the accounts of the District combined with its affiliate, Natchitoches Hospital Foundation. The District has control of the Foundation. All interscompany transactions and balances have been eliminated.

Property, Plant and Equipment

Purchased fixed assets are recorded at cost and donated fixed assets, if received, at fair market value on the date of any donation. Depreciation is calculated over estimated useful lives, using the straight-line method. Land was initially donated for hospital use, and it is recorded at the fair market value at the time of donation. Additional land was purchased, and it is recorded at cost.

Cash and Cash Equivalents

Cash represents coin, currency, bank demand deposits and other negotiable instruments that are readily acceptable in lieu of currency. Cash equivalents are time deposits, certificates of deposit, treasury bills and mortgage backed securities purchased with a maturity of three months or less.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 1 - THE ORGANIZATION AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Inventories

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Investments

The Hospital classifies their investments as available-for-sale in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities are reported at fair value. Unrealized holdings gains and losses are reported as other comprehensive income.

Income Taxes

The District is a political subdivision of the State of Louisiana and exempt from taxation.

The Foundation is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Credit Risk

The Hospital provides medical care primarily to Natchitoches Parish residents and grants credit to patients, substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Third-Party Government-Based Revenues

Contractual agreements with governmental agencies (Medicare, Medicaid, etc.) provide for reimbursement based on combinations of the lesser of reasonable cost (subject to certain limits) or charges and prospective rates initially set based upon costs of services to patients. These reimbursements are subject to audit and retroactive adjustments by each payer.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 2 - DEPOSITS

Non interest and interest bearing demand deposit accounts are each covered up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Though bank balances exceeded FDIC limits throughout the year, the bank holds pledged securities in the District's name to cover all coverage. All amounts invested at investment companies are fully covered by insurance or are fully backed by the U. S. Government. Fair values are based upon quoted market prices.

	Unamortized Cost	Fair Value
<i>A summary of security types at June 30, 2003 follows:</i>		
Mortgage backed securities	\$ 16,766,561	\$ 16,840,393
Debt Securities issued by the U. S. Treasury and other U.S. Government Corporations and Agencies	<u>2,642,080</u>	<u>2,617,201</u>
	\$ <u><u>19,408,641</u></u>	\$ <u><u>19,457,594</u></u>

A summary of security types at June 30, 2002 follows:

Mortgage backed securities	\$ 16,173,716	\$ 16,164,044
Debt Securities issued by the U. S. Treasury and other U.S. Government Corporations and Agencies	<u>2,693,641</u>	<u>1,975,267</u>
	\$ <u><u>18,867,357</u></u>	\$ <u><u>18,139,311</u></u>

A summary of security types at June 30, 2001 follows:

Mortgage backed securities	\$ 14,422,213	\$ 14,367,562
Debt Securities issued by the U. S. Treasury and other U.S. Government Corporations and Agencies	<u>903,000</u>	<u>908,363</u>
	\$ <u><u>15,325,213</u></u>	\$ <u><u>15,275,925</u></u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 3 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	2003	2002	2001
Patient accounts receivable	\$ 6,669,216	\$ 6,427,963	\$ 9,563,538
Third-party year end settlements	<u>(608,871)</u>	<u>(410)</u>	<u>312,275</u>
	5,799,345	6,427,553	9,875,813
Less provision for uncollectibles	<u>(2,354,936)</u>	<u>(2,039,000)</u>	<u>(3,721,682)</u>
Net accounts receivable	<u>\$ 3,444,409</u>	<u>\$ 4,388,553</u>	<u>\$ 6,154,131</u>

During the year ended June 30, 2001, management made the following changes in estimating the allowances for uncollectibles for self-pay and private insurance accounts: (1) used the most recent 18 month moving average of collectibility in place of the most recent 12 month moving average; (2) extended the period used to estimate collectibility from 150 days to 180 days; and (3) used the same collection percentage for the categories exceeding 150 days instead of reducing each older category by fifty percent of the previous aging category. Management asserts changes made were to produce a better estimate by including additional history and collection analysis. If the Hospital had calculated the 2001 allowance using the same method as used in fiscal 2000 and before, the allowance for uncollectibles and bad debt expense would increase by \$670,060, while net income would decrease by the same amount.

The Hospital received interim amounts of \$2,223,586, \$3,110,301 and \$1,309,775 for Medicaid and self-pay uncompensated care services for the years ended June 30, 2003, 2002 and 2001, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retrospective audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends interim amounts paid reasonably estimate final settlements. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 4 - MEDICARE AND MEDICAID PROGRAMS

The District receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the periods ended June 30, the following revenues were obtained from these programs:

	2003	2002	2001
Medicare and Medicaid gross patient charges	\$ 43,193,880	\$ 39,018,391	\$ 34,482,424
Contractual adjustments without uncompensated care reimbursement	<u>(28,581,581)</u>	<u>(21,383,617)</u>	<u>(19,604,687)</u>
Net patient service revenue	\$ <u>14,612,299</u>	\$ <u>17,634,774</u>	\$ <u>14,877,737</u>
Percent of gross patient charges	69%	60%	64%
Percent of total net patient revenue	49%	52%	64%

NOTE 6 - LIMITED USE ASSETS

	2003	2002	2001
By Third Parties			
Cash with paying agent - interest and principal, due 12/31 (Series 1994 and 2000 Bonds)	\$ 735,801	\$ 793,637	\$ 758,335
Donor contributions	171,208	152,457	148,998
Patient trust funds	8,247	9,886	7,966
George Christus	-0-	-0-	3,875,187
Series 2000 proceeds to be disbursed	4,810,245	7,856,871	10,584,567
By Board			
Repair and replacement - cash and cash equivalents	3,877,120	4,048,804	653,065
Repair and replacement - investments	11,501,304	8,349,368	4,873,534
LHA trust deposits	813,855	789,378	773,295
Less limited use assets required for current liabilities	<u>(913,335)</u>	<u>(885,668)</u>	<u>(4,767,270)</u>
Non-current limited use assets	\$ <u>26,881,224</u>	\$ <u>21,896,215</u>	\$ <u>16,884,401</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2003.

	June 30, 2002	Additions	Deletions	June 30, 2003
Land and Improvements	\$ 668,124	\$ 124,628	\$ 10,825	\$ 1,071,927
Buildings	18,339,343	3,899,041	3,168	22,235,215
Leasehold improvements	100,328	-0-	-0-	100,328
Furniture, fixtures & equipment	9,871,773	3,362,828	481,889	12,852,692
Leased assets	548,237	-0-	318,890	221,737
Construction in progress	5,628,172	2,582,305	4,438,882	3,772,595
Total	38,638,875	6,778,913	5,233,614	40,084,174
Accumulated depreciation	18,802,272	1,825,383	682,288	20,215,367
Net	\$ 19,836,603	\$ 4,953,530	\$ 4,550,926	\$ 19,868,807

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2002.

	June 30, 2001	Additions	Deletions	June 30, 2002
Land and Improvements	\$ 714,862	\$ 340,638	\$ 2,288	\$ 668,124
Buildings	18,899,104	15,971	565,732	18,339,343
Leasehold improvements	-0-	100,328	-0-	100,328
Furniture, fixtures & equipment	9,578,818	908,973	517,018	9,871,773
Leased assets	548,237	-0-	-0-	548,237
Construction in progress	2,281,630	4,588,587	1,241,846	5,628,172
Total	31,084,853	5,178,367	2,854,075	38,638,875
Accumulated depreciation	16,226,181	1,831,407	1,855,316	18,802,272
Net	\$ 14,858,672	\$ 4,346,960	\$ 1,998,759	\$ 19,836,603

NATCHITOCHES PARISH HOSPITAL, SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2001.

	<u>June 30, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2001</u>
Land and Improvements	\$ 350,824	\$ 324,058	\$ -0-	\$ 714,882
Buildings	18,488,840	390,204	-0-	18,889,044
Leasehold Improvements	284,804	-0-	284,804	-0-
Furniture, fixtures & equipment	8,489,005	1,155,194	15,389	9,628,810
Leased assets	642,541	-0-	102,284	540,257
Construction in progress	<u>669,234</u>	<u>2,052,544</u>	<u>745,148</u>	<u>2,381,630</u>
Total	28,193,248	3,961,996	1,142,645	31,012,603
Accumulated depreciation	<u>18,837,743</u>	<u>1,468,633</u>	<u>365,193</u>	<u>19,225,169</u>
Net	\$ <u>11,126,265</u>	\$ <u>2,473,427</u>	\$ <u>642,452</u>	\$ <u>12,736,488</u>

Depreciation was calculated using the straightline method. Useful lives for the purpose of calculating depreciation by class are:

Buildings	10 - 40 years
Furniture, fixtures and equipment	3 - 15 years

These assets were obtained in part with funds from a Hill-Burton program grant of \$267,500.

NOTE 7 - OTHER ASSETS

Bond issue costs of \$27,871 were incurred for the 1994 Revenue Bonds and are being amortized over the remaining life of the bonds (9 years) beginning in 1994.

Construction interest of \$813,566 is being amortized over the estimated useful life of the new hospital plant and equipment (20 years) beginning August 1991, when put into service.

Bond issue costs of \$48,809 were incurred for the 2000 Revenue Bonds and will be amortized over the remaining life of the bonds (20 years) beginning in 2004.

Capitalized interest of \$997,590 was accumulated as of June 30, 2003 for the 2000 Revenue Bonds and will be amortized over the remaining life of the bonds (20 years) beginning in 2004.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 8 - ACCRUED EXPENSES

A summary of accrued expenses is presented below:

	2003	2002	2001
Accrued interest	\$ 147,908	\$ 158,508	\$ 168,313
Accrued salaries	321,413	280,836	247,148
Accrued vacation pay	841,868	530,800	468,879
Accrued retirement	<u>-0-</u>	<u>84,000</u>	<u>-0-</u>
Total	\$ <u>1,311,189</u>	\$ <u>1,053,922</u>	\$ <u>879,834</u>

Management elected not to accrue non-vested compensated absence cost of sick pay which was deemed unestimable.

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30, 2003, follows:

	2003	2002	2001
Series 1984 Hospital Revenue Bonds at rates varying from 4.9% to 5.55%, collateralized by a pledge and dedication of hospital revenue	\$ 480,000	\$ 688,800	\$ 1,315,000
Series 2000 Hospital Revenue Bonds at a rate of 6.00%, collateralized by a pledge and dedication of hospital revenue	8,435,000	8,735,800	10,000,000
Capital lease obligation, 4.95%, collateralized by leased nuclear medicine and ultrasound machine with cost of \$248,237	<u>-0-</u>	<u>89,751</u>	<u>204,431</u>
	9,915,000	10,714,751	11,519,431
Less current maturities of long-term debt	<u>(770,000)</u>	<u>(819,751)</u>	<u>(794,875)</u>
Long-term debt, net of current maturities	\$ <u>9,145,000</u>	\$ <u>9,895,000</u>	\$ <u>10,724,556</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002, 2001 AND 2000

NOTE 9 - LONG-TERM DEBT (Continued)

On May 9, 1994, the Series 1994 Hospital Revenue Bonds were issued. On June 14, 2000, the Series 2000 Hospital Revenue Bonds were issued. The bonds are secured by the full faith and credit of the Hospital as well as a lien and privilege on its revenues.

The Hospital has covenanted to set rates so that revenues are sufficient to pay all reasonable and necessary expenses of operating and maintaining the Hospital, certain multiples of the largest amount of principal and interest maturing on the Bonds in any future fiscal year and on any pari passu additional bonds hereafter issued. Those multiples range from 120% to 200%.

Other requirements under the terms of indebtedness are as follows:

- * Sale or disposition of Hospital property, plant and equipment is limited. Future debt agreements may not take priority over this series of debt.
- * Make monthly deposits equal to the pro-rata portion of the next principal and/or interest payment, which are to be maintained in fully backed or government securities investments, with market values greater than invested dollars.
- * Collect payment on all services rendered, except for an undisclosed, reasonable amount of charity care.
- * Maintain all assets in good working order.
- * Carry full insurance coverage with a responsible licensed Louisiana company.
- * Maintain complete and accurate records and have an annual audit.
- * Maintain cash on hand of not less than 45 days of operating expenses net of depreciation and amortization. This requirement changed to 60 days effective June 14, 2000.
- * Provide quarterly statements to the purchaser.
- * Protect tax exempt status and refrain from activities that would require payment of arbitrage to the IRS.

Scheduled principal repayments on revenue bonds and payments on capital lease obligations over the next five years are as follows:

Year Ending June 30	Revenue Bonds	Revenue Bonds
2004	\$ 400,000	\$ 310,000
2005	0-	325,000
2006	0-	345,000
2007	0-	365,000
2008	0-	380,000
Thereafter	<u>0-</u>	<u>7,700,000</u>
	<u>\$ 400,000</u>	<u>\$ 8,435,000</u>

MATCHITCHEES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 10 - RETIREMENT PROGRAM

Employees may participate in a qualified defined contribution retirement plan. Each employee is eligible to join the plan immediately upon employment. Employees become vested in the employer's contribution 25% per year until 100% vested at 4 years of employment. Under terms of the plan, each participating employee must make contributions of 4% and may make additional voluntary contributions. The District must make contributions equal to 25% of the employee's required contribution and can elect to contribute up to 150% of the employee's required contribution.

Total Payroll	\$ 13,280,248
Total Covered Payroll	\$ 10,139,847
Employee Contributions	\$ 405,593
Employer Contributions	\$ 101,368
Less forfeitures	(3,823)
Net Employer Contributions	\$ 97,545

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

The District's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their exposures. At policy year-end, premiums are redetermined utilizing actual losses of the District. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NOTE 12 - WORKMEN'S COMPENSATION RISK

The District participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the District may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The District has included these allocations and equity amounts assigned to the District by the Trust Fund in its financial statements.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 13 - CHARITY CARE

The Hospital has a policy of providing charity care to indigent patients in emergency situations. Amounts identified as charity care charges are \$209,615, \$183,147 and \$49,320 for the years ended June 30, 2003, 2002 and 2001, respectively. The related cost of care was approximately 63%, 67% and 69%, for the fiscal years ended in 2003, 2002 and 2001, respectively.

NOTE 14 - NET CONTRIBUTIONS

Contributions and related fund raising expenses are reflected in the following table. Included in 2002 and 2001 net contributions are \$3,400,000 and \$600,000, respectively, which has been earned from a loan deposit of \$6,000,000 from Christus Health.

	2003	2002	2001
Contributions	\$ 34,985	\$ 3,485,160	\$ 638,826
Interest earned on contributions	1,541	2,523	5,368
Less fund raising expenses	<u>(9,232)</u>	<u>(7,933)</u>	<u>(7,811)</u>
Net contributions	\$ <u>27,294</u>	\$ <u>3,479,750</u>	\$ <u>636,383</u>

NOTE 15 - SELF-FUNDED BENEFITS PLAN

The District maintains a self-funded medical/dental benefits plan. The District entered into an agreement as of July 1991, with Employee Benefit Services, Inc., for supervision of the plan. The Hospital purchases "excess" insurance coverage that provides for payment of 100% of claims in excess of \$50,000 per year up to specific individual maximums of \$1,000,000.

NOTE 16 - NOTES RECEIVABLE

The following is a summary of notes receivable at June 30:

	2003	2002	2001
Physician notes	\$ 28,000	\$ 2,147	\$ 2,403
Physician contract guarantees	<u>608,716</u>	<u>618,623</u>	<u>629,520</u>
	636,716	620,770	631,923
Less current maturities	<u>(303,612)</u>	<u>(283,138)</u>	<u>(212,197)</u>
Long-term notes receivable	\$ <u>333,104</u>	\$ <u>337,632</u>	\$ <u>419,726</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

NOTE 17 - CONTINGENCIES

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Third-Party Government-Based Revenues (Note 1) - Cost reimbursements are subject to examination by agencies administering the programs. Effective October 1, 1993, the Medicare program discontinued its cost-based reimbursement system for inpatient services. Under the program, the District receives a fixed fee for each patient, which is determined by the government. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end statements.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

Workers's Compensation Risk (Note 12) - The District is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

Hill-Burton Uncompensated Service and Community Service Obligations - As a result of the District receiving a Federal Hill-Burton program grant, the District is required to provide a reasonable volume of uncompensated services to patients who are unable to pay for their medical care. The District's obligation for uncompensated services was fulfilled on July 17, 1999. Additionally, the District is obligated to provide community service.

**NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2003, 2002 AND 2001**

NOTE 18 - IGT TRANSFER - ADMINISTRATIVE FEE

The Hospital entered into a cooperative endeavor agreement with the State of Louisiana under Act No. 143 of the First Extraordinary Session of the 2000 Louisiana Legislature ("Act 143"). Act 143 provides for an Intergovernmental Transfer (IGT) to the Hospital whereby payments were made to the Hospital and 92.5% of the funds were transferred to the Natchitoches Parish Police Jury (Police Jury) for transfer to the State of Louisiana. The Hospital was authorized to retain an amount equal to one-half of one percent (0.5%) of the Medicaid Enhancement Pool payment as an administrative fee. By cooperative endeavor, the administrative fee was equally divided between the Hospital and the Natchitoches Parish Police Jury. The Natchitoches District Attorney's office requested an opinion from the Louisiana Attorney General's (AG) office regarding the legality of equally dividing the administrative fee between the Hospital and the Police Jury under Louisiana and Medicaid laws. On August 23, 2001, the AG opined finding no prohibition prohibiting the Hospital from sharing with the Police Jury under Louisiana law, and acknowledged receiving similar assurance from experts in Medicaid law. The \$106,567, \$437,768 and \$266,423 fees retained by the Hospital (0.25%) for 2003, 2002 and 2001, respectively, are reported as non-operating income. To avoid distortion of the Hospital's cash flow statement, the \$41,962,656, \$174,677,565 and \$119,769,060 transferred to the Hospital from the State of Louisiana and the \$43,872,693, \$174,236,517 and \$119,499,577 transferred by the Hospital to the Police Jury were not reported on the Hospital's cash flow statement. The transfer to the Police Jury includes the Police Jury's share of the administrative fee.

NOTE 19 - COMMITMENTS

The Hospital entered into three construction contracts during the year ended June 30, 2003, which totaled \$14,238,214, including change orders as of June 30, 2003. The Hospital paid \$4,524,448 towards this commitment as of June 30, 2003.

NOTE 20 - SUBSEQUENT EVENTS

On July 19, 2003, a six-mill, ten-year ad valorem tax was passed to subsidize the Hospital's ambulance operation. Management has committed to open two ambulance substations in the rural east and west sides of the Natchitoches Parish.

SUPPLEMENTARY INFORMATION

HAUCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Daily patient services:			
Routine services	\$ 3,820,789	\$ 3,883,390	\$ 3,647,423
Intensive care	1,302,819	1,482,911	1,302,668
Nursery	271,662	251,704	257,529
Long-term care	3,453,688	3,289,896	3,896,423
Swing bed	10,486	9,466	12,540
Geriatric psych	1,808,683	2,817,814	2,176,150
Total daily patient services	<u>10,668,035</u>	<u>15,802,934</u>	<u>10,291,699</u>
Other professional services:			
Operating and recovery room			
Inpatient	3,118,354	3,232,048	2,235,344
Outpatient	<u>4,295,920</u>	<u>3,747,968</u>	<u>3,713,793</u>
Total	<u>7,414,274</u>	<u>6,980,016</u>	<u>6,049,137</u>
Lab and delivery			
Inpatient	697,604	665,833	650,994
Outpatient	<u>115,236</u>	<u>112,714</u>	<u>92,116</u>
Total	<u>812,840</u>	<u>778,547</u>	<u>743,110</u>
Anesthesia			
Inpatient	34,353	34,027	51,220
Outpatient	<u>25,892</u>	<u>30,759</u>	<u>103,279</u>
Total	<u>60,245</u>	<u>64,786</u>	<u>154,499</u>
Radiology, ultrasound & CT scan			
Inpatient	2,994,828	2,874,242	2,186,473
Outpatient	<u>6,686,128</u>	<u>5,597,795</u>	<u>5,106,658</u>
Total	<u>9,680,956</u>	<u>8,472,037</u>	<u>7,293,131</u>
Laboratory			
Inpatient	4,573,195	4,150,416	3,958,846
Outpatient	<u>3,795,811</u>	<u>3,112,673</u>	<u>2,636,878</u>
Total	<u>\$ 8,379,027</u>	<u>\$ 7,263,089</u>	<u>\$ 6,595,724</u>

MATCHPOCCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Blood			
Inpatient	\$ 215,376	\$ 182,802	\$ 201,182
Outpatient	<u>49,200</u>	<u>51,952</u>	<u>25,088</u>
Total	<u>264,576</u>	<u>234,752</u>	<u>226,269</u>
Inhalation therapy			
Inpatient	3,442,411	3,327,568	1,775,368
Outpatient	<u>218,281</u>	<u>130,337</u>	<u>134,494</u>
Total	<u>3,660,692</u>	<u>2,457,905</u>	<u>1,909,862</u>
Physical therapy			
Inpatient	385,854	325,657	358,803
Outpatient	<u>835,807</u>	<u>978,681</u>	<u>641,852</u>
Total	<u>1,244,701</u>	<u>1,303,740</u>	<u>1,000,706</u>
Occupational therapy			
Inpatient	100,885	184,116	122,875
Outpatient	<u>205,003</u>	<u>239,859</u>	<u>105,362</u>
Total	<u>306,888</u>	<u>343,775</u>	<u>228,237</u>
Speech therapy			
Inpatient	38,155	34,452	51,833
Outpatient	<u>158,652</u>	<u>122,735</u>	<u>56,518</u>
Total	<u>196,757</u>	<u>157,187</u>	<u>108,743</u>
Electrocardiology			
Inpatient	1,343,548	843,223	811,541
Outpatient	<u>2,168,612</u>	<u>1,507,288</u>	<u>1,103,788</u>
Total	<u>\$ 3,512,160</u>	<u>\$ 2,450,511</u>	<u>\$ 1,915,329</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Central services			
Inpatient	\$ 1,218,711	\$ 1,173,064	\$ 1,482,122
Outpatient	<u>308,816</u>	<u>338,388</u>	<u>282,185</u>
Total	<u>1,517,226</u>	<u>1,499,449</u>	<u>1,744,307</u>
Pharmacy			
Inpatient	7,618,888	8,018,177	7,280,893
Outpatient	<u>1,842,874</u>	<u>1,389,803</u>	<u>1,340,888</u>
Total	<u>9,281,862</u>	<u>9,403,980</u>	<u>8,621,252</u>
Cardiac rehab			
Inpatient	483	351	1,582
Outpatient	<u>121,268</u>	<u>186,438</u>	<u>242,768</u>
Total	<u>121,581</u>	<u>186,588</u>	<u>244,293</u>
Emergency room			
Inpatient	882,841	808,371	751,854
Outpatient	<u>4,694,820</u>	<u>4,148,188</u>	<u>3,875,897</u>
Total	<u>5,337,481</u>	<u>4,956,558</u>	<u>4,797,851</u>
Observation			
Outpatient	<u>104,482</u>	<u>48,853</u>	<u>35,824</u>
Ambulance			
Outpatient	<u>2,183,448</u>	<u>1,882,811</u>	<u>1,834,210</u>
Diabetic intensive			
Outpatient	<u>(388)</u>	<u>2,892</u>	<u>-0-</u>
Physician clinic			
Outpatient	\$ <u>181,864</u>	\$ <u>188,728</u>	\$ <u>87,488</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
School-based clinic			
Outpatient	\$ 44,690	\$ 44,927	\$ 76,179
Wellness center			
Outpatient	47,580	-0-	-0-
Montgomery clinic			
Outpatient	43,290	-0-	-0-
Total other professional services	<u>84,240,860</u>	<u>48,279,719</u>	<u>43,377,458</u>
Total patient service revenue	<u>85,114,865</u>	<u>59,182,653</u>	<u>53,659,114</u>
Contractual adjustments - Medicare and Medicaid	36,591,581	33,665,903	18,880,294
Contractual adjustments - other	5,823,431	4,590,883	4,988,745
Free care	208,618	180,147	48,328
Other deductions	6,521	14,881	31,266
Uncompensated care reimbursement	<u>(2,223,568)</u>	<u>(2,110,381)</u>	<u>(1,908,775)</u>
Total allowances	<u>39,106,380</u>	<u>25,811,053</u>	<u>21,715,799</u>
Net patient service revenue	\$ <u>34,918,325</u>	\$ <u>33,671,506</u>	\$ <u>31,943,325</u>

NATCHITOCHES PARISH HOSPITAL, SERVICE DISTRICT
SCHEDULES OF OTHER REVENUE
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Other revenue:			
Rental income	\$ 876,300	\$ 600,091	\$ 588,267
Medical records	6,669	6,958	4,301
Dietary sales	320,488	343,380	366,700
Vending revenue	35,187	30,606	30,787
LHA trust	80,408	87,704	61,606
Ambulance tax from police jury	16,100	323,405	-0-
Other	123,351	35,972	66,210
Janitorial revenue	<u>-0-</u>	<u>-0-</u>	<u>20,000</u>
Total other operating revenue	\$ <u>1,471,921</u>	\$ <u>1,443,176</u>	\$ <u>1,150,961</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2001, 2002 AND 2003

	2002	2002	2001
Salaries:			
Human resources	\$ 94,583	\$ 122,017	\$ 137,330
Administration	454,817	497,967	544,253
Information systems	138,449	147,798	168,883
Accounting	128,575	119,678	119,877
Admitting	329,569	340,523	360,871
Business office	323,645	333,967	366,333
Housekeeping	300,673	300,614	328,543
Dietary and cafeteria	300,623	356,758	394,849
Laundry	12,891	26,414	26,603
Plant operations and maintenance	203,366	189,843	230,473
Nursing administration	618,978	641,856	590,526
Medical records	291,199	320,837	319,119
Nursing services	1,830,236	1,580,432	1,334,929
ICU	706,127	675,723	660,229
Geriatric psych	448,304	428,873	442,163
Nursery	184,992	165,753	135,927
Long-term care	1,716,877	1,758,880	1,645,452
Operating room	743,233	696,199	687,722
Labor and delivery	389,993	368,964	381,431
Radiology	679,876	533,572	488,791
Laboratory	363,326	350,679	388,516
Respiratory therapy	333,328	303,182	313,736
Physical therapy	368,907	326,888	238,193
Occupational therapy	201,119	163,869	169,699
Speech therapy	87,729	43,647	37,688
Cardiovascular	127,604	107,604	118,143
Purchasing	58,272	66,663	58,681
Pharmacy	211,569	165,267	188,184
Cardiac rehab	66,349	130,389	117,517
Diabetic initiative	1,581	19,266	-0-
Emergency room	810,809	789,216	819,748
Ambulance	637,238	612,297	653,666
Physician clinic	60,263	44,975	20,261
School based clinic	33,062	33,909	27,688
Montgomery clinic	3,523	-0-	-0-
Wellness center	41,488	-0-	-0-
Total salaries	\$ 13,280,246	\$ 12,648,772	\$ 11,874,774

NATCHITOCHEE PARISH HOSPITAL SERVICE DISTRICT
SCHEDULE OF EXPENSES - SALARIES AND BENEFITS (Continued)
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Benefits:			
FICA and Medicare tax	\$ 988,621	\$ 921,647	\$ 873,518
Hospital Insurance	604,582	474,575	488,610
Other	<u>23,527</u>	<u>25,056</u>	<u>12,244</u>
Total benefits (excluding retirement)	<u>1,596,730</u>	<u>1,422,712</u>	<u>1,374,368</u>
Total salaries and benefits	\$ <u>14,858,928</u>	\$ <u>13,903,484</u>	\$ <u>13,349,500</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF EXPENSES - MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2001, 2002 AND 2003

	2003	2002	2001
Nursing service	\$ 74,530	\$ 66,708	\$ 116,397
ICU	21,844	36,663	33,702
Geriatric psych	3,349	3,723	14,823
Nursery	20,730	21,428	15,853
Long-term care	130,588	78,212	144,126
Operating room	1,229,824	1,145,686	865,770
Labor and delivery	72,311	58,347	33,891
Anesthesiology	26,672	37,688	33,890
Radiology, nuclear medicine, CAT scan	213,571	216,644	223,377
Laboratory and blood	528,186	206,049	347,197
Respiratory therapy	116,666	67,303	84,088
Physical therapy	649	2,916	5,660
EKG	15,732	15,052	36,806
Central supply	211,087	321,037	425,666
Pharmacy	36,388	30,604	666,683
Cardiac rehab	1,286	834	3,288
Emergency room	66,253	67,348	116,644
Ambulance	27,834	25,649	32,451
Physician clinic	-0-	-0-	170
Montgomery clinic	344	-0-	-0-
School-based clinic	179	-0-	-0-
	<u>\$ 3,603,202</u>	<u>\$ 2,352,581</u>	<u>\$ 3,481,731</u>
Total medical supplies and drugs	\$ <u>3,603,202</u>	\$ <u>2,352,581</u>	\$ <u>3,481,731</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF EXPENSES - MEDICAL, PROFESSIONAL AND
CONSULTING SERVICES
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Routine nursing	\$ 409,879	\$ 332,300	\$ 223,282
ICU	214,966	211,838	68,896
Geriatric psych	140,000	193,896	101,683
Nursery	3,778	-0-	3,861
LTCU	48,124	66,201	48,648
Operating room	263	-0-	3,789
Labor and delivery	-0-	3,900	5,000
Radiology, ultrasound, CAT scan	302,018	276,801	236,788
Laboratory	87,820	106,552	112,488
Respiratory therapy	71,896	63,777	19,748
Physical therapy	63,854	58,592	49,647
Occupational therapy	-0-	63	1,901
Pharmacy	1,748,381	1,978,670	693,742
Emergency room	1,067,369	967,831	699,900
Other	-0-	1,394	190
Sleep study	182,793	196,680	64,888
Mentgomery clinic	15,890	-0-	-0-
School based clinic	4,370	-0-	1,400
Total professional fees	\$ <u>4,331,362</u>	\$ <u>4,375,425</u>	\$ <u>2,441,343</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF EXPENSES - OTHER
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Service fees	\$ 1,840,000	\$ 1,890,537	\$ 1,468,238
Legal and accounting	194,885	137,491	97,237
Non-medical supplies	1,490,540	1,663,893	1,424,888
Repairs and maintenance	430,707	478,721	649,949
Utilities	844,832	928,429	1,090,578
Telephone	80,789	82,889	93,238
Travel and fuel - Meals on Wheels	-0-	-0-	30,516
Travel and fuel - ambulance	25,802	21,189	26,188
Travel and fuel - other	73,367	57,115	42,652
Rental expense	158,154	123,045	85,999
Education expense	44,595	36,009	44,727
Scholarships	8,343	10,790	6,940
Licenses, dues and subscriptions	192,678	232,778	128,270
Patient duty tax	348,053	234,984	198,279
Advertising	216,871	195,001	193,560
Recruitment	395,344	384,438	474,088
Other	<u>36,710</u>	<u>65,345</u>	<u>25,753</u>
Total other expenses	\$ <u>8,052,918</u>	\$ <u>8,912,841</u>	\$ <u>8,909,650</u>

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT

HISTORY

The Natchitoches Parish Hospital was built by the people of the Parish of Natchitoches, Louisiana, in cooperation with the United States Government, and is operated by the Natchitoches Parish Hospital Service District as created by the Police Jury of Natchitoches Parish, Louisiana.

In consideration of an agreement between the Police Jury of Natchitoches Parish, Louisiana, and the Natchitoches Parish Hospital Service District whereby the Police Jury agreed to construct, complete and equip a hospital in Natchitoches Parish, the Hospital Service District agrees to do and perform the following:

1. To operate the District for the duration of this twenty-year agreement as a non-profit institution in accordance with an agreement entered into by and between the Parish and the United States.
2. To maintain and operate the District and assume and pay the expenses of operations and maintenance to the extent of the income and revenues derived therefrom.
3. To have full and complete charge of the management and operation of the District and conduct and operate said District at all times in accordance with acceptable standards of hospital practice.

The Parish covenants to do and perform, as consideration for this agreement, the following:

1. To equip the hospital building for hospital purposes with modern equipment sufficient to meet the needs of present day hospital practice. If, however, the District desires to replace said equipment with new equipment, it may do so, and said new equipment shall be and remain the property of the Parish if paid for out of the income resulting from the operation of the District. It is understood and agreed, however, that the Parish shall not be responsible for the securing of additional equipment other than that already purchased or installed when the District takes possession of the premises.
2. To levy the special tax of one mill on the dollar of all property subject to state taxation in the Parish for a period of three years beginning with the year 1958, as authorized by the special election held in the Parish on November 15, 1955, and the Parish shall pay to the District the net proceeds of said tax, as when collected. Said net proceeds shall be used by the District solely to defray the costs of operating and maintaining the District described herein, and proceeds at such intervals as the Parish may require.

During the year ended September 30, 1955, the Natchitoches Parish Hospital was enlarged by the addition of a nursing home, an autopsy room, new patient rooms and additional administrative and storage space. This new construction was financed by: (1) a grant from the United States Government under the Hill-Burton Act in the amount of \$387,000; (2) proceeds of a \$400,000 bond issue; and, (3) revenues of the Natchitoches Parish Hospital. The \$400,000 of Natchitoches Parish, Louisiana, Hospital Improvement Revenue Bonds, 3 1/2%, Series 1963, were purchased by the United States of America, Housing and Home Finance Agency. These bonds were retired in 1979.

NATCHITOCHEE PARISH HOSPITAL SERVICE DISTRICT

HISTORY (Continued)

On June 14, 1977, a seven million dollar (\$7,000,000) bond issue was passed by the people of Natchitoches Parish. The seven million dollars (\$7,000,000) consisted of four million five hundred thousand dollars (\$4,500,000) of Public Improvement Bonds to be paid by ad valorem taxes. Two million five hundred thousand dollars (\$2,500,000) were to be Revenue Bonds and were to be paid off out of the general operating revenue of the District. Pursuant to a public hearing held on March 5, 1979, the District was authorized to issue \$4,500,000 of Hospital Revenue Bonds in lieu of the \$2,500,000 of Hospital Revenue Bonds.

On May 22, 1978, the Public Improvement Bonds were sold. The Public Improvement Hospital Bonds are dated April 1, 1978, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding six and one-half percent (6 1/2%) per annum on any bond in any interest payment period. Said interest to be payable April 1, 1978, and semi-annually thereafter on April 1st and October 1st of each year. Bonds numbered 264 to 600, inclusive, are callable for redemption by the District in the inverse order of their maturities, and if less than a full maturity, then by lot within such maturity, on any interest payment date on or after April 1, 1988, at the principal amount thereof and accrued interest to the date fixed for redemption, provided that official notice of such call of any of the bonds for redemption date by means of publication of an appropriate notice one time in a financial newspaper or journal published in the City of New York, or in the City of New Orleans, Louisiana, and sent by registered mail to the place of payment of the bonds. Bonds of this issue numbered 1 to 200, inclusive, are not callable for redemption prior to their stated dates of maturity. The bonds are secured by a special tax to be imposed and collected annually in excess of all other taxes on all the property subject to taxation within the territorial limits of the District. On October 1, 1968, funds were deposited in an irrevocable trust and zero coupon United States of America Trust securities were purchased. The securities began maturing in February 1995, and will be used to pay payments on the bonds until payment in full. No collections of taxes were required after that time.

In May, 1979, the Hospital Revenue Bonds were sold. These bonds are dated April 1, 1979, and are in denominations of five thousand dollars (\$5,000) each, and bear interest at a rate or rates not exceeding seven and seven-eighths percent (7 7/8%) per annum on any bond in any interest period. Said interest to be payable October 1, 1979, and semi-annually thereafter on April 1st and October 1st of each year.

The Series 1979 Revenue Bonds are also subject to redemption in whole, at any time, or in part, at any interest payment date, at the option of the District upon the occurrence of any of the following conditions or event: (1) if title to, or the permanent use of, or use for a limited period of, substantially all of the District is condemned; or (2) if the title to substantially all of the District is found to be deficient to the extent that the Hospital is untenable or the efficient utilization of the District by the District is substantially impaired; or (3) if substantially all of the District is damaged or destroyed by fire or other casualty; or (4) if as a result of any changes in the Constitution of the United States of America or of the State of Louisiana or of legislative or administrative action, or failure of administrative action, by the United States or the State of Louisiana, or any agency or political subdivision thereof, or by reason of any judicial decision, (i) the Resolution becomes void or unenforceable or impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities are imposed on the District, including without limitation Federal, state or other ad valorem property, income or other taxes being imposed on the property of the District. In the event of such redemption, the Bonds shall be subject to redemption at the principal amount thereof plus accrued interest to the date of redemption, but without premium.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT

HISTORY (Continued)

The Series 1979 Bonds are issued pursuant to a Resolution, under which payment of the principal of, redemption premium, if any, and interest on the Series 1979 Bonds is secured by a pledge of the income, revenues, receipts and accounts receivable derived by, payable or accruing to the District by reason of its operation of the District, subject to payment of the operating expenses of the District.

The Series 1979 Bonds are limited obligations of the District which are payable solely from revenues derived by the District from its operation of the Hospital. The Series 1979 Bonds are not an indebtedness or pledge of the general credit of the State of Louisiana, the Parish or City of Natchitoches or the District. Neither the District nor any of the assets of the District are pledged or mortgaged as security for the Series 1979 Revenue Bonds.

On February 26, 1980, the Louisiana State Bond Commission approved a notice of intention to issue not exceeding \$766,000 of Hospital Revenue Bonds to bear interest at rates not exceeding 9 1/4% per annum, the proceeds of which will be used for the purpose of constructing improvements to the existing facilities or to provide additional facilities, said bonds are to be secured by and payable solely from the District from operations, to mature at such time not exceeding 30 years from date of issuance, and subject further to the approval of the Natchitoches Parish Police Jury. In lieu of issuing these bonds the District made an application for the approval to the State Bond Commission to issue \$800,000 of Certificates of Indebtedness at an interest rate not to exceed eleven and one-half percent per annum. This application was approved on September 1, 1981. The \$800,000 in Certificates of Indebtedness were issued on April 8, 1982. Certificates totaling \$150,000 were issued to each of three banks in Natchitoches. These Certificates of Indebtedness were paid in full on September 28, 1984.

On November 25, 1985, the District's Commissioners resolved to donate a portion of land to the Natchitoches Parish Police Jury so they may construct a parish health clinic. The act of donation was made by resolution of the Board of Commissioners on October 23, 1987. The District's basis in the donated land was \$8,200.

An ambulance service tax is collected by the Natchitoches Parish Police Jury. The tax money is forwarded to the District upon submitting ambulance call for the year. A ten-year renewal was passed in 1996. The voters of Natchitoches Parish voted not to renew this tax in July 1998.

Effective January 30, 1987, the Long-Term Care Unit qualified as a Medicare participating skilled nursing facility. As of September 28, 1987, a home health program was begun.

On December 1, 1988, the District began renting office space for four physicians in a newly constructed physician office building.

During the year ended June 30, 1990, the District purchased approximately ten acres of land on Keyser Avenue. The state of Louisiana expropriated one quarter acre for road right-of-way.

During the year ended June 30, 1991, the District began an \$840,000 renovation of the fourth and fifth floors of the Hospital which include two additional elevators and a rehabilitation fitness center. The Hospital began redecorating and refurbishing 64 patient rooms. These renovations were completed in fiscal year 1992.

MACHITOGHEE PARISH HOSPITAL SERVICE DISTRICT

HISTORY (Continued)

During the year ended June 30, 1992, the District began replacing the dilayers and completed replacement of the chiller in fiscal year 1993. The Hospital began and nearly completed a building to be rented as a dialysis center.

During the year ended June 30, 1994, the District completed construction of the dialysis center and began construction of rental facilities for a mental health unit and an obstetrics/gynecology doctors' office. The District also refinanced \$3,600,000 of Revenue bonds. As with the 1979 series, the \$3,580,000 of Series 1994 Bonds, dated May 18, 1994, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital. The interest rates vary from 3.98% to 5.8%.

The District completed construction of the mental health unit, the obstetrics/gynecology doctors' office, senior care center and remodeling of the labor and delivery rooms during this fiscal year ended June 30, 1995. A cooperative endeavor with Northwest Psychiatry, Inc. resulted in the establishment of an adolescent psychiatric program in Machitoches Parish. Additionally, the Hospital began its own geriatric psychiatric program on the hospital campus just prior to year end.

Effective July 1, 1995, the Hospital's geriatric psychiatric unit received "Distinct Part" status which provides for reasonable cost reimbursement of necessary services to Medicare patients. In February 1996 the cooperative endeavor with Northwest Psychiatry, Inc. ended as Medicaid, the primary payor source for the adolescent facility, tightened its admission and length of stay criteria. The result was an inadequate census and the unit was closed.

The District began leasing twenty-one beds and selling ancillary services to Satellite Rehab, Inc., a separately licensed hospital and unrelated party, on December 1, 1997. Satellite Rehab, Inc. offers inpatient rehabilitative services.

Also, on December 1, 1997, the District entered into a management agreement with Christus Health (the "Manager"). The Manager is responsible for providing an administrator for routine administrative services, making recommendations for the overall rate structure, preparing monthly reports to the Board, managing cash and investments, preparing annual budgets and reviewing the insurance program. The Board of Commissioners retained all authority and control over the District.

During the year ended June 30, 2000, the District financed \$10,000,000 of 6% Series 2000 Revenue Bonds. The \$10,000,000 of Series 2000 bonds, dated June 14, 2000, are obligations of the District which are payable from revenues derived by the District from its operation of the Hospital and must be used for expansion of hospital facilities.

The District received escrow funds in the amount of \$5,000,000 from Christus Health on March 1, 2000 as a part of an agreement with the District to be used for expansion of outpatient facilities. As certain conditions were met, the \$5,000,000 was earned during 1999, 2000, 2001 and 2002.

The District ceased operations of the home health and partial day psychiatric services in June 2000.

During the year ended June 30, 2002, the Hospital renovated the second and third floor of the tower as part of the beginning of a three-phase construction project, which will include a new outpatient service

MACHITOGUES PARISH HOSPITAL SERVICE DISTRICT

HISTORY (Continued)

center. This project is being financed by the issuance of the Series 2000 Revenue Bonds of \$18,000,000 and from the \$8,000,000 contribution received by Christus Health.

The Hospital continued its three-phase construction project during 2003 with the completion of the renovation of the second and third floors and started construction on the new outpatient service center. The Hospital entered into three separate construction contracts totaling \$14,289,214, including change orders as of June 30, 2003. At June 30, 2003, the Hospital paid \$4,524,488 towards this commitment.

NATCHITOCHES PARISH HOSPITAL SERVICE DISTRICT
 SCHEDULE OF PER DIEM
 OR OTHER AMOUNTS PAID TO OR ON BEHALF OF COMMISSIONERS
 FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

Coley Gehagan	240
Ronald Corbin	200
Dr. Chris Ingram	240
Dr. Wilhelmina Wise	200
Frankie Ray Jackson	240
John Satter	80
George Celler, IV	200

**NATCHITOCHEE PARISH HOSPITAL SERVICE DISTRICT
COMBINED SCHEDULE OF BONDS PAYABLE
YEARS ENDED JUNE 30, 2003, 2002 AND 2001**

NATCHITOCHEE PARISH HOSPITAL	BONDS	PAYMENT DATE	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIAL NUMBER	BONDS			
						ALLEGED	ISSUED	RETIRED	OUTSTANDING
Revenue Bonds	\$5,000,000	06/1/97	5/28/98	06/1/2002	001,000 (2000)	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Revenue Bonds	\$25%	06/1/97	5/14/99	06/1/2002	002,000 (2000) 003,000 (2000) 004,000 (2000) 005,000 (2000) 006,000 (2000) 007,000 (2000) 008,000 (2000) 009,000 (2000) 010,000 (2000) 011,000 (2000) 012,000 (2000) 013,000 (2000) 014,000 (2000) 015,000 (2000) 016,000 (2000) 017,000 (2000) 018,000 (2000) 019,000 (2000) 020,000 (2000)	\$2,000,000	\$2,000,000	\$1,000,000	\$1,000,000

NATCHITOCHEES PARISH HOSPITAL SERVICE DISTRICT
SCHEDULES OF AMBULANCE DEPARTMENT OPERATING PERFORMANCE
YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	2003	2002	2001
Patient service revenue			
Inpatient charges ¹	\$ 3,548	\$ 5,291	\$ 11,862
Outpatient charges ¹	<u>2,159,901</u>	<u>1,847,410</u>	<u>1,893,626</u>
Gross patient charges	2,163,449	1,852,701	1,905,488
Deductions from revenue ²	<u>834,965</u>	<u>675,824</u>	<u>569,248</u>
Net patient service revenue	<u>1,328,484</u>	<u>1,176,877</u>	<u>1,336,240</u>
Expenses			
Salaries ¹	607,230	612,297	653,650
Benefits ²	87,109	88,824	89,576
Medical supplies ³	27,834	25,849	33,451
Supplies ¹	13,330	17,819	9,603
Repairs and maintenance ⁴	18,268	18,891	20,978
Utilities	8,525	8,354	13,863
Fuel ⁵	25,806	25,803	27,348
Rentals ¹	1,525	0-	3,250
Miscellaneous ¹	703	3,699	1,235
Depreciation ⁴	61,066	64,301	47,779
Billing, accounting and other support services ⁶	180,816	204,405	183,801
Provision for bad debts ⁶	<u>353,215</u>	<u>362,823</u>	<u>217,724</u>
Total expenses	<u>1,381,555</u>	<u>1,384,895</u>	<u>1,321,106</u>
Ambulance department excess revenue (expense)	\$ <u>(52,871)</u>	\$ <u>(107,876)</u>	\$ <u>(284,448)</u>
Capital expenditure	\$ <u>76,000</u>	\$ <u>57,414</u>	\$ <u>133,575</u>

¹ - Charge or expense directly assigned to the ambulance department.

² - Benefits are determined using the ratio of total benefits, including payroll taxes, divided by total salaries times ambulance salaries.

³ - Deductions from revenue are determined using amounts calculated from the Medicare and Medicaid cost reports plus the average percentage for commercial contractual adjustments times ambulance commercial insurance charges.

⁴ - Depreciation is the expense for the equipment and facilities used by the ambulance department.

⁵ - Billing, accounting and other support services amounts are obtained from the Hospital's Medicare and Medicaid cost report using Medicare's principles of reimbursement.

⁶ - Provision for bad debts are determined using the ratio of amounts written-off, net of recoveries, during the year ended June 30, 2003 divided by ambulance commercial and self-pay charges times ambulance charges to commercial and self-pay.

Bobby G. Lester, CPA
John B. Wells, CPA
Robert D. Miller, CPA
Paul A. Delaney, CPA

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Natchitoches Parish Hospital Service District
Natchitoches, Louisiana

We have audited the basic financial statements of the Natchitoches Parish Hospital Service District (the "District" or the "Hospital"), a component unit of the Natchitoches Parish Police Jury, Natchitoches, Louisiana, as of and for the years ended June 30, 2003, 2002, and 2001 and have issued our report thereon dated September 10, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Commissioners
Natchitoches Parish Hospital Service District
Page Two

This report is intended solely for the information and use of management and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



Certified Public Accountants
September 10, 2003

Hatchitoches Parish Hospital Service District
Auditors' Comments and Recommendations
For the Twelve Months Ended June 30, 2003

General

We were pleased to find improvements in all areas where recommendations were made as a result of the 2002 and 2001 audits. Our comments and recommendations with management's responses are repeated from last year with our assessment of resolution in 2003.

2001 Internal Control Weaknesses

1. Medicare and Medicaid Contractual Expense Estimates

** Condition: The model used for estimating contractual adjustments for Medicare and Medicaid was not updated for changes in reimbursement methodologies and payment percentages, as well as to reflect current cost allocations. Instructions from Medicare and Medicaid on changes in reimbursement methodologies came late in the fiscal year, and for some circumstances after year end. Changes materially affected the Medicare and Medicaid contractual adjustment estimates.

** Recommendation: We recommend updating the model to use cost allocations from the most recently completed cost report and revise the model to incorporate annual changes in reimbursement methods and payment percentages.

** Response: The Hospital will bring in outside consultants, quarterly to review and adjust our Governmental Contracts accordingly.

** Resolution: This matter has been resolved.

2002 Compliance

1. Civic Club Dues

** Condition: The Hospital paid civic club dues on behalf of employees. This is a violation of the Louisiana Revised Statutes.

** Recommendation: We recommend discontinuing paying civic club dues for employees.

** Response: The Hospital is no longer paying civic club dues for employees.

** Resolution: This matter has been resolved.

Metropolitan Parish Hospital Service District
Auditors' Comments and Recommendations (Continued)
For the Twelve Months Ended June 30, 2003

2002 Compliance (continued)

3. Charitable Donations

**** Condition:** The Hospital made various charitable donations and management asserts each was for the promotion of the health and welfare of the community, with advertising as a byproduct of the donations. While the disbursements were documented, the restricted purpose of the contributions was not clearly acknowledged by all recipients.

**** Recommendation:** We recommend management document the benefit received when donation/advertising is made. The advertising benefit should be equal to or exceed the payment amount. Donations to qualified exempt organizations to improve the health and welfare of the community, the purpose for which the Hospital was organized, should be clearly and adequately documented to support management's assertion.

**** Response:** Future documentation will support the value of advertising or how the charitable purpose of the Hospital was promoted through payments to qualified charitable organizations.

**** Resolution:** This matter has been resolved.